

NIH POLICY MANUAL

6016-1 - USE OF PERCENTAGES IN LEVEL OF EFFORT CONTRACTS

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1. **Explanation of Material Transmitted:** This issuance provides general guidance in the use of percentage of effort for the level-of-effort article in contracts with organizations, which account for effort and maintain their records on the basis of percentage of effort. In general, most educational institutions and some nonprofit institutions are affected.
2. **Filing Instructions:**

Remove: NONE (replaces I&I Memorandum DCG 84-7 (Rev. 1), Use of Percentages in Level of Effort, dated April 1, 1984.)
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A. Purpose:

This Manual Chapter provides general guidance in the use of percentage of effort for the level-of-effort article in contracts with organizations, which account for effort and maintain their records on the basis of percentage of effort. In general, most educational institutions and some nonprofit institutions are affected.

B. Background:

Commercial contractors and some of the larger nonprofit contractors (those enumerated in OMB Circular A-122, Government-Wide Cost Principles for Non-Profit

Organizations) maintain their labor records, estimate their labor costs and bill such labor costs on the basis of hours. On the other hand, educational institutions, which are governed by the cost principles in OMB Circular A-21, "Cost Principles for Educational Institutions," are permitted to use other methods to account for employees' time. With very few exceptions, these institutions account for labor in terms of percentage of effort. Examples of acceptable systems shown in OMB Circular A-21 are:

1. Plan-confirmation
2. After-the-fact activity records
3. Multiple confirmation records

Since these institutions account for labor on the basis of percentage of effort, they should prepare and submit contract proposals in the same manner. Making an effort to convert such percentage of effort to hours for contract purposes is not meaningful since the audit trail available to an auditor is percentage of effort and not hours.

C. References:

1. OMB Circular No. A-21, Cost Principles for Educational Institutions as Revised, dated July 21, 1993 (Revised Edition Incorporates the 1979, 1982, 1986, 1991 and 1993 Regulations).
2. FAR Part 16, Types of Contracts, Subsection 16.306(d)(2), Cost-plus-fixed-fee Contracts.

D. Policy:

This Manual Chapter is for informational purposes only. The data provided has been taken from OMB Circular A-122 and OMB Circular A-21.

E. Definition:

Level-of-Effort/Term Contract - A term/level-of-effort form contract describes the scope of work in general terms and requires the contractor to provide a specified level-of-effort (number of hours or percentage of effort) over a stated period of time.

F. Procedures:

Whether hours or percentage of effort are proposed, any work requirement in the contract should be stated in the same terms as the contractor will use to account for and record the effort, i.e., percentage of effort for most faculty and professional employees at educational institutions. When such percentages of effort are used in proposals or the contract document there is a concomitant requirement that the basis to which such percentages are applied must also be submitted by the offeror and subsequently prescribed in the contract, e.g., a twelve-month academic year, a nine-month academic year, etc. In this way an individual's or group of individuals' obligation under the contract will be quantified. In some instances, person-months may be proposed. If

such is the case, such quantification of time should be considered as substituting for a percentage of effort applied to a base. The following is a sample of the use of percentages in a level-of-effort article:

PI 60% (1)
Co-PI 40% (1)
Technicians (3) 240% (2)
Clerical 100% (2) 440%

(1) The base period for the Principal Investigator (PI) and Co-Principal Investigator (Co-PI) is a nine-month academic year.

(2) The base period for the technicians and clerical staff is a twelve-month year.

Comment: The result of the above would mean that the Government would expect nine months of effort from the PI and Co-PI and 40.8 months of effort from the technicians and clerical staff or a total of 49.8 months of effort.

G. Records Retention and Disposal:

Records are retained and disposed of under the authority of the NIH Records Control Schedule contained in NIH Manual Chapter 1743, Appendix 1--"Keeping and Destroying Records" NIH Records Control Schedule, Item 2600-A-4, Routine Procurement Files. Refer to the NIH Manual Chapter for specific disposition instructions.

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